

Message Text

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ACTION EB-08

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P R 311254Z JAN 78
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC PRIORITY 9122
INFO USMISSION GENEVA

UNCLAS SECTION 1 OF 6 NEW DELHI 1639

FROM AMBASSADOR WOLFF TO JOHN DONALDSON

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E.O. 11652: N/A
TAGS: ETRD MTN
SUBJECT: TEXT OF ADDRESS TO INTERNATIONAL ASSOCIATION OF SEED
CRUSHERS

1. THE ROLE OF DEVELOPING COUNTRIES IN THE INTERNATIONAL TRADING
SYSTEM.

2. BEGIN TEXT. IT'S A PLEASURE TO BE HERE IN THIS BEAUTIFUL
CITY TODAY, AND TO SEE AND FEEL FIRSTHAND THE VITALITY AND
IMPORTANCE OF A RAPIDLY DEVELOPING COUNTRY SUCH AS MALAYSIA.
IT'S A PRIVILEGE ALSO TO BE ADDRESSING AN ASSOCIATION SUCH AS
YOURS, WITH TRADE AND PRODUCTION INTERESTS SCATTERED ACROSS
THE GLOBE. YOU HAVE BEEN DOING WELL: WORLD EXPORTS OF OIL-
SEEDS, FATS AND OILS HAVE INCREASED BY ABOUT 50 PERCENT IN THE
LAST DECADE, AND PRODUCTION HAS ALSO BEEN INCREASING RAPIDLY.
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MUCH OF THIS PRODUCTION HAS BEEN IN DEVELOPING COUNTRIES WHERE
IT IS BRING MUCH-NEEDED BENEFITS IN TERMS OF EMPLOYMENT,
STIMULATION OF DEMAND, AND EARNINGS OF FOREIGN EXCHANGE THROUGH
EXPORTS.

3. YET, WE MUST REMIND OURSELVES, EVEN IN THE VIBRANT
ATMOSPHERE CREATED BY THIS CITY, THAT THE CURRENT INTERNATIONAL

TRADING SYSTEM IS UNDERGOING SEVERE STRAINS. DEMANDS FOR PROTECTION FROM IMPORT COMPETITION HAVE INCREASED DRAMATICALLY. GOVERNMENTS HAVE GENERALLY RESISTED THESE DEMANDS, BUT EVEN SO THE GATT SECRETARIAT HAS ESTIMATED THAT, SINCE 1974, AS MUCH AS AN ADDITIONAL DOL\$50 BILLION OF WORLD TRADE HAS BEEN SUBJECTED TO, OR SERIOUSLY THREATENED BY, NEW TRADE RESTRICTIONS.

4. IN FACT, I REGARD THIS NUMBER AS SURPRISINGLY LOW, AS GOVERNMENTS HAVE EXERCISED SELF-RESTRAINT AND POLITICAL COURAGE IN RESISTING TAKING PROTECTIONIST ACTIONS. BUT THE PRESSURES ARE INTENSE, AND ROOTED IN AN UNDERLYING WORLD ECONOMIC MALAISE WHICH, SINCE THE FOURFOLD INCREASE IN INTERNATIONAL ENERGY PRICES IN 1973/74 HAS PROVED PARTICULARLY INTRACTABLE.

5. IT IS IN THIS ECONOMIC CONTEXT THAT A HUNDRED NATIONS ARE GATHERED IN THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA, SUCCEEDING IN THE DIFFICULT PROCESS OF NEGOTIATING INCREASING TRADE LIBERALIZATION AND NEW RULES TO GOVERN THEIR TRADE. THIS WOULD AT ANY TIME BE AN EXTRAORDINARILY COMPLEX AND DIFFICULT TASK; IN THE CURRENT ECONOMIC CLIMATE IT IS PARTICULARLY SO. ONE OF THE KEY CHALLENGES TO BE ADDRESSED IN THE GENEVA TALKS IS HOW TO INTEGRATE THE DEVELOPING COUNTRIES INTO THE INTERNATIONAL TRADING SYSTEM. AT AN EARLIER DATE, THIS QUESTION COULD BE REGARDED AS ACADEMIC, THEORETICAL, AND REMOTE. TODAY IT IS A CENTRAL ISSUE TO BE RESOLVED.
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6. THE DEVELOPING COUNTRIES HAVE PROPOSED ESTABLISHING A SET OF NEW TRADING RULES WHICH DISCRIMINATE IN THEIR FAVOR, BY OPENING UP INDUSTRIALIZED COUNTRIES' MARKETS ON A PERMANENTLY PREFERENTIAL BASIS, WHILE PERMITTING PROTECTION OF THEIR OWN MARKETS FOR THE BENEFIT OF THEIR "INFANT INDUSTRIES". AT ITS EXTREME, THIS IS WHAT IS MEANT BY SOME DEVELOPING COUNTRY REPRESENTATIVES WHEN THEY REFER TO THE "SPECIAL AND DIFFERENTIAL TREATMENT" THAT THEY EXPECT TO RECEIVE.

7. BUT THIS OBJECTIVE IS OUT OF TOUCH WITH REALITY. THE PRESSURES OF PROTECTIONISM ARE IN FACT PUSHING THE INDUSTRIALIZED COUNTRIES FURTHER IN THE DIRECTION OF CLOSING THEIR MARKETS TO THE PRODUCTS OF THE DEVELOPING COUNTRIES, IN MARKED CONTRAST TO THE DEMANDS FOR PREFERENTIAL ACCESS. THE PRESSURES FOR PROTECTION HAVE BEEN CONCENTRATED IN PRECISELY THOSE INDUSTRIES IN WHICH MANY DEVELOPING COUNTRIES HAVE BUILT AN EXPORT CAPACITY -- TEXTILES, FOOTWEAR, CONSUMER ELECTRONICS. AS THE INDUSTRIAL BASE OF THE DEVELOPING COUNTRIES EXPANDS, PROBLEMS OF THIS SORT ARE LIKELY TO INCREASE.

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UNCLAS SECTION 2 OF 6 NEW DELHI 1639

FROM AMBASSADOR WOLFF TO JOHN DONALDSON

PASS STR ELECTRONICALLY
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8. THE RESPONSE OF THE INDUSTRIALIZED COUNTRIES HAS BEEN UNCOORDINATED, INADEQUATE, AND BASED ON DIVERGENT PHILOSOPHIES. ONE PROPOSAL GIVEN WIDE CIRCULATION IN ACADEMIC CIRCLES IN THE WEST A FEW YEARS AGO WAS THE CREATION OF A "TWO TIER" TRADING SYSTEM. THE INDUSTRIALIZED COUNTRIES WOULD ELABORATE AMONGST THEMSELVES A DETAILED SET OF RULES GOVERNING INTRA-DEVELOPED COUNTRY TRADE. THE LESS DEVELOPED COUNTRIES WOULD NOT DECIDE THE CONTENT OF THE RULES, BUT, SITTING ON THE SIDELINES WOULD RECEIVE THE BENEFITS OF INCREASED WORLD TRADE, NEITHER SUBSCRIBING TO THE RULES NOR PARTICIPATING IN THEIR ADMINISTRATION.

9. THE IDEA OF EXCLUDING DEVELOPING COUNTRIES FROM FULL PARTICIPATION IN THE INTERNATIONAL TRADING SYSTEM IS, I BELIEVE, BOTH MISTAKEN AND OUTDATED. WHILE IT MIGHT HAVE BEEN POSSIBLE IN THE PERIOD IMMEDIATELY FOLLOWING WORLD WAR II, IT IS INCOMPATIBLE WITH CURRENT ECONOMIC AND POLITICAL REALITIES.
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10. ANOTHER APPROACH THAT HAS BEEN SUGGESTED WOULD DEAL WITH THE CHALLENGE OF LESS DEVELOPED COUNTRY COMPETITION THROUGH INCREASED DIRECT INTERVENTION IN THE MARKET BY THE INDUSTRIALIZED COUNTRIES. THIS IS A VIEW MOST STRONGLY HELD BY THOSE WHO ARE OPPOSED TO CHANGE, LACKING IN SELF-CONFIDENCE, AND FEARFUL OF COMPETITION IN MY OWN COUNTRY AND ABROAD. I AM VERY WORRIED ABOUT SUCH SUGGESTIONS THAT ORGANIZATION OF THE MARKET SHOULD BECOME A GENERAL PRINCIPLE FOR FUTURE TRADE RELATIONSHIPS WITH DEVELOPING COUNTRIES. THE CONCEPT ITSELF ELEVATES THE USE OF TRADE RESTRICTIONS FOR PURPOSES OF MARKET SHARING TO A STATUS OF ACCEPTABILITY. IF THIS CONCEPT GAINED ACCEPTANCE, THE STRONG PRESUMPTION WHICH NOW EXISTS AGAINST THE TAKING OF RESTRICTIVE ACTIONS WOULD BE DEEPLY ERODED.

11. I CAN THINK OF NO SURER WAY TO UNDERCUT RESISTANCE TO PROTECTIONIST SENTIMENT. THE LINE OF INDUSTRIES SEEKING TO PRESERVE THEIR "RIGHTFUL" MARKET SHARE BY KEEPING OUT IMPORTS WOULD BEGIN FORMING OVERNIGHT. I FEAR THAT THE FIRST TO FEEL THE EFFECTS WOULD BE THE KEY EXPORT INDUSTRIES OF THE DEVELOPING COUNTRIES.

12. LET ME SAY AT THE OUTSET THAT MY OWN VIEWS REST ON ONE BASIC PREMISE - THAT THE TRADING SYSTEM SHOULD BE STRUCTURED TO ENCOURAGE THE FULLEST POSSIBLE PARTICIPATION OF ALL TRADING NATIONS, BOTH IN THE RIGHTS ACCORDED AND THE OBLIGATIONS UNDERTAKEN, WITH THE SYSTEM DESIGNED TO ENCOURAGE RATHER THAN INHIBIT THE DEVELOPING NATIONS'S PROCESS OF INDUSTRIALIZATION.

13. THE BELIEF IN THE NEED FOR A TWO-TIER TRADING SYSTEM ASSUMES A FUNDAMENTAL DIFFERENCE BETWEEN THE TRADE INTERESTS OF THE DEVELOPED WORLD AND THE DEVELOPING COUNTRIES. I THINK THE ASSUMPTION IS UNSOUND; I BELIEVE ALL TRADING NATIONS --
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DEVELOPING AS WELL AS DEVELOPED -- SHARE ONE OVERRIDING OBJECTIVE: TO MAINTAIN AND, TO THE EXTENT POSSIBLE STRENGTHEN, AN OPEN INTERNATIONAL TRADING SYSTEM.

14. THE FACTS SHOULD SPEAK FOR THEMSELVES. IN THE DECADES SINCE THE END OF THE SECOND WORLD WAR, THERE HAS BEEN UNPRECEDENTED WORLD ECONOMIC GROWTH AND PROSPERITY. EXPANDING TRADE HAS BEEN ONE OF THE PRINCIPAL ENGINES OF THIS GROWTH. IT IS NO MERE COINCIDENCE THAT THE PERIOD HAS BEEN MARKED BY A PROGRESSIVE DISMANTLING OF TRADE BARRIERS UNDER THE GATT. YEAR AFTER YEAR, THE INCREASE IN INTERNATIONAL TRADE HAS EXCEEDED THE INCREASE IN WORLD PRODUCTION. ONE MAY ARGUE AS TO THE EXTENT TO WHICH TRADE HAS SERVED TO NARROW THE INCOME GAP BETWEEN RICH AND POOR, BUT NO ONE, I THINK, WOULD QUESTION THAT, IN ABSOLUTE TERMS, BOTH GROUPS OF COUNTRIES HAVE BENE-

FITTED VERY SUBSTANTIALY.

15. THE DEVELOPING COUNTRIES HAVE MUCH AT STAKE IN AVOIDING THE SPREAD OF ECONOMIC NATIONALISM; IT IS THEIR EXPORTS WHICH WILL BE FIRST HIT BY A NEW WAVE OF PROTECTIONISM. BUT THE EFFECTIVENESS OF DEVELOPING COUNTRIES IN INFLUENCING EVENTS HAS OFTEN BEEN DISSIPATED IN AN EXCESS OF THIRD WORLD RHETORIC. THE POLITICAL REALITY COULD NOT BE CLEARER. EITHER WE WORK TOGETHER TO KEEP MARKETS OPEN TO ALL OR WE WATCH THEM CLOSE TO ALL.

16. LET ME BEGIN WITH AN EXAMPLE YOU ALL KNOW WELL: PALM OIL. WORLD EXPORTS OF PALM OIL HAVE ENJOYED A PHENOMENAL GROWTH IN THE PAST DECADE. SINCE 1965 WORLD EXPORTS OF PALM OIL HAVE QUADRUPLED, TO AN ESTIMATED 2,300,000 METRIC TONS IN 1977. MALAYSIA HAS BEEN THE LEADER IN THIS EXPANSION, ACCOUNTING FOR OVER HALF OF THE WORLD'S EXPORTS OF PALM OIL, AND NEARLY HALF OF THE WORLD'S PRODUCTION.

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FROM AMBASSADOR WOLFF TO JOHN DONALDSON

PASS STR ELECTRONICALLY
GENEVA PASS MTN DEL

17. THERE WAS A GROWING CONCERN IN THE UNITED STATES OVER THE SHARP RISE IN OUR PALM OIL IMPORTS. AFTER A THOROUGH REVIEW, THE UNITED STATES GOVERNMENT REJECTED THE IMPOSITION OF IMPORT

RESTRICTIONS AS INAPPROPRIATE. IT WAS NOT AN EASY DECISION.

18. THE FACT THAT THE SOURCE OF THE IMPORTS WAS A NUMBER OF DEVELOPING COUNTRIES WOULD NOT HAVE BEEN SUFFICIENT BY ITSELF FOR REACHING THIS DECISION. IN TRADE POLICY, LONG RUN GLOBAL ECONOMIC DEVELOPMENT IS NOT OFTEN THE DOMINANT FACTOR IN THE DECISION-MAKING PROCESS. OTHER FEATURES OF A NATION'S SELF-INTEREST ARE GENERALLY MORE PRESSING.

19. THE UNITED STATES HAS AN OVERRIDING INTEREST IN MAINTAINING AN OPEN INTERNATIONAL TRADING SYSTEM. THIS IS PARTICULARLY TRUE FOR AGRICULTURE. THE UNITED STATES IS THE WORLD'S LARGEST EXPORTER OF AGRICULTURE PRODUCTS - OVER DOLS22 BILLION WORTH
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IN 1975. WE WERE ALSO THE WORLD'S LARGEST PRODUCER AND EXPORTER OF OILSEEDS AND OILSEED PRODUCTS, AMOUNTING TO MORE THAN DOLS 4 BILLION ANNUALLY. BY COMPARISON, OUR 1975 IMPORTS OF OIL-SEEDS AND PRODUCTS WERE VALUED AT ABOUT DOLS550 MILLION, OF WHICH LESS THAN HALF WAS ACCOUNTED FOR BY PALM OIL.

20. AS A RESULT OF THESE CONSIDERATIONS, AS WELL AS OTHER FACTORS SUCH AS DEVELOPMENTS IN THE MARKET, AND THE DIRECT IMPACT OF POSSIBLE RESTRICTIONS ON THIRD COUNTRY MARKETS, NO IMPORT RESTRICTIONS WERE IMPOSED. WE ALSO RECOGNIZED THAT OUR OWN REACTION TO ANY FOREIGN THREAT TO RESTRICT ONE OF OUR IMPORTANT AND RELATED EXPORTS - SOYBEANS - WOULD BE SHARP AND IMMEDIATE, AND IN THIS PARTICULAR CASE RISK OPEN CONFLICT. I KNOW OF NO TRADE ISSUE THAT TOUCHES THE INTERESTS OF U.S. AGRICULTURE THAT COULD PROVOKE A STRONGER UNITED STATES REACTION THAN IF MARKET ACCESS ABROAD FOR OUR EXPORTS OF SOYBEANS WERE ADVERSELY AFFECTED.

21. FORTUNATELY, THE EXISTENCE OF GATT DISCIPLINES HAS REDUCED THE POTENTIAL FOR CONFLICTS OF THIS KIND. OUR TASK IN THE GENEVA TRADE TALKS -- AND IN THIS THE DEVELOPED AND THE DEVELOPING COUNTRIES ALIKE SHARE AN OVERRIDING COMMON INTEREST -- IS TO EXPAND OPPORTUNITIES FOR TRADE AND STRENGTHEN THE GATT FRAMEWORK.

22. IN WHAT SHOULD BE A COMMON EFFORT, THE ROLE AND THE POSITIONS THE DEVELOPING COUNTRIES HAVE TAKEN IN THE MULTI-LATERAL TRADE NEGOTIATIONS (MTN) HAVE BEEN SOMEWHAT DISAPPOINTING. THEIR ALMOST EXCLUSIVE EMPHASIS HAS BEEN ON PROVISION FOR SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES IN THE VARIOUS AREAS OF THE NEGOTIATIONS. DEVELOPING COUNTRY PARTICIPATION IN THE DEBATE ON THE GENERAL ISSUES BEING DISCUSSED - FOR EXAMPLE, DEPTH OF TARIFF CUT, RULES ON THE USE OF
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SAFEGUARD MEASURES - HAS BEEN LIMITED. WHERE DEVELOPING COUNTRIES HAVE REQUESTED SIGNIFICANT LIBERALIZATION FROM DEVELOPED COUNTRIES, THEY HAVE BEEN IN EVERY CASE BUT ONE, UNWILLING TO OFFER CONCESSIONS OF THEIR OWN IN RETURN - CONCESSIONS WHICH WOULD CONTRIBUTE TO THEIR OWN DEVELOPMENT, WHILE PROVIDING A SURER POLITICAL FOUNDATION FOR THEIR CONTINUED AND EXPANDED ACCESS TO THE MARKETS OF INDUSTRIALIZED COUNTRIES.

23. I DO NOT WANT TO IMPLY THAT PROVISION FOR SPECIAL AND DIFFERENTIAL TREATMENT HAS NO PLACE IN THE TRADING SYSTEM. IT CLEARLY DOES, AND WILL BE INCLUDED IN MANY OF THE AGREEMENTS UNDER NEGOTIATION. THE POINT IS TO KEEP ITS ROLE IN PROPER PERSPECTIVE. THE SHAPE OF THE TRADING SYSTEM FOR THE NEXT DECADE WILL BE DETERMINED FAR MORE BY THE GENERAL PROVISIONS OF AGREEMENTS BEING WORKED OUT IN GENEVA THAN BY WHATEVER WILL BE DONE WITH RESPECT TO SPECIAL AND DIFFERENTIAL TREATMENT, AND THIS IS WHERE THE KEY INTERESTS OF THE DEVELOPING COUNTRIES LIE.

24. LET ME ILLUSTRATE WHAT I MEAN. ONE OF THE KEY ISSUES UNDER NEGOTIATION IS A SAFEGUARDS CODE - I.E. THE RULES GOVERNING THE USE OF TEMPORARY TRADE MEASURES TO ALLOW ADJUSTMENT TO IMPORTS WHICH CAUSE INJURY TO DOMESTIC PRODUCERS. AS I NOTED EARLIER, THE SECTORS OF INDUSTRY WHICH, IN THE DEVELOPED COUNTRIES, ARE MOST SENSITIVE TO IMPORT COMPETITION ARE THOSE IN WHICH THE DEVELOPING COUNTRIES ARE MOST COMPETITIVE.

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FROM AMBASSADOR WOLFF TO JOHN DONALDSON
PASS STR ELECTRONICALLY
GENEVA PASS MTN DEL

25. THE PURPOSE BEHIND A NEW SAFEGUARDS CODE IS TO IMPROVE THE EXISTING RULES SO THAT COUNTRIES ARE ENCOURAGED TO TAKE TRADE ACTIONS FOR PURPOSES OF ADJUSTMENT (THAT IS, NOT FOR PERMANENT PROTECTION) AND SUBJECT TO INTERNATIONALLY AGREED GUIDELINES. AS THE SITUATION NOW STANDS, THE GATT RULES ARE FOR THE MOST PART BYPASSED. COUNTRIES OFTEN TAKE ACTION WITHOUT REGARD TO INTERNATIONAL DISCIPLINE. I SUGGEST THAT IT SHOULD BE MORE IMPORTANT TO THE DEVELOPING COUNTRIES TO INTRODUCE INTERNATIONAL DISCIPLINE OVER THE USE OF SAFEGUARD ACTIONS, RATHER THAN THE STRESS THAT THEY PLACE ON THE POSSIBILITY THAT THEY MIGHT RECEIVE A COMPLETE EXEMPTION FROM SUCH ACTIONS.

26. THE LATTER UNQUALIFIED GOAL IS TOTALLY UNREALISTIC. NO COUNTRY, DEVELOPED OR DEVELOPING, WILL TOLERATE DISRUPTION OF A SIGNIFICANT SECTOR OF ITS ECONOMY WITHOUT REACTING. DEVELOPING COUNTRY PROPOSALS, WHICH WOULD HAVE THEIR EXPORTS EXCEPTED FROM INDUSTRIALIZED COUNTRY SAFEGUARD ACTIONS, UNCLASSIFIED

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REGARDLESS OF THE INJURY SUCH IMPORTS CAUSE, ARE NOT, AND WILL NEVER BE ACCEPTABLE.

27. THE SAFEGUARDS EXAMPLE IS NOT AN ISOLATED CASE, THE SAME TENDENCY TO CONCENTRATE ON SPECIAL AND DIFFERENTIAL TREATMENT, OFTEN WITH COMPLETELY UNREALISTIC OBJECTIVES, AT THE COST OF MORE ACTIVE PARTICIPATION IN THE GENERAL ELEMENTS OF AGREEMENTS BEING NEGOTIATED, HAS MARKED THE APPROACH OF MANY DEVELOPING COUNTRIES TO MOST KEY ISSUES. I THINK THAT, IF THERE WERE A SHIFT OF EMPHASIS AND THE DEVELOPING COUNTRIES WERE TO ADDRESS FIRST THE GENERAL RULES WHICH SHOULD BE AGREED UPON AND THEN THE EXCEPTIONS TO THEM THAT MIGHT BE NECESSARY TO TAKE INTO ACCOUNT THEIR PARTICULAR TRADE PROBLEMS, THE RESULT, IN TERMS OF A NEGOTIATION WHICH SATISFIES DEVELOPING COUNTRY INTERESTS, WOULD BE BETTER.

28. A BRIEF REVIEW OF OTHER KEY AREAS UNDER NEGOTIATION SHOULD GIVE YOU A BETTER IDEA OF (1) WHAT IS AT STAKE, OVERALL, IN THE MTN, (2) WHAT THE DEVELOPING COUNTRIES HAVE BEEN SEEKING, AND (3) HOW THEIR PARTICULAR INTERESTS MIGHT BE ACCOMMODATED.

29. TARIFFS - LAST MONDAY, THE UNITED STATES AND OTHER MAJOR DEVELOPED COUNTRIES TABLED COMPREHENSIVE OFFERS FOR TARIFF BARRIER REDUCTIONS ON BOTH INDUSTRIAL AND AGRICULTURE PRODUCTS. THIS SETS THE BASIS FOR A SIGNIFICANT REDUCTION OF TARIFFS WHICH, IN MY VIEW, IS AN ESSENTIAL COUNTERWEIGHT TO THE INCREASE WE HAVE SEEN IN PRESSURE FOR PROTECTIVE TRADE MEASURES. A DEEP TARIFF CUT, MORE THAN ANY SINGLE OTHER ACTION, WILL STAND AS A FIRM DECLARATION OF OFFICIAL DETERMINATION TO CONTINUE POST-WAR EFFORTS TO REDUCE TRADE BARRIERS AND RESIST A DRIFT TOWARD PROTECTIONISM.

30. GIVEN BASIC DEVELOPING COUNTRY INTEREST IN KEEPING TRADE
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OPEN, ONE MIGHT ASSUME FULL DEVELOPING COUNTRY SUPPORT FOR A SIGNIFICANT REDUCTION OF TARIFF BARRIERS. IN FACT, DEVELOPING COUNTRY SUPPORT FOR SUCH A TARIFF CUT HAS BEEN QUALIFIED. THE CONCERN IS THAT TARIFF REDUCTIONS ON A MOST-FAVORED-NATION BASIS WILL EAT INTO THE BENEFITS DEVELOPING COUNTRIES RECEIVE UNDER SYSTEMS OF GENERALIZED PREFERENCES.

31. I UNDERSTAND THE CONCERN, BUT THE BENEFITS OF A MAJOR TARIFF REDUCTION FAR OUTWEIGH ANY COSTS TO THE DEVELOPING COUNTRIES:

FIRST, ALL PREFERENCE SCHEMES ARE LIMITED, SECONDLY, THE PREFERENTIAL DUTY RATE IS NOT AN OBLIGATION -- IT MAY BE WITHDRAWN OR LIMITED.

32. FROM WHAT I HAVE SAID, YOU CAN SAFELY CONCLUDE THAT THE UNITED STATES WILL STRONGLY OPPOSE ANY FORM OF SPECIAL AND DIFFERENTIAL TREATMENT WHICH DISCOURAGES TRADE LIBERALIZATION BY PRESERVING MARGINS OF TARIFF PREFERENCES. WE WILL, HOWEVER, SUPPORT SPECIAL AND DIFFERENTIAL TREATMENT IN THE FORM OF OUR COMMITMENT TO INCLUDE, TO THE MAXIMUM EXTENT POSSIBLE, PRODUCTS OF SPECIAL INTEREST TO DEVELOPING COUNTRIES IN AN AGREEMENT TO REDUCE TARIFFS.

33. SUBSIDIES AND COUNTERVAILING DUTIES -- NO SUBJECT IN THE TRADE NEGOTIATIONS CAUSES QUITE THE SAME AMOUNT OF EMOTION TO BE EXPENDED AS THIS ONE. GOVERNMENT AIDS OFTEN HAVE A DISTORTING EFFECT ON TRADE, WHETHER INTENTIONALLY OR NOT. THE APPLICATION OF OFFSETTING OR COUNTERVAILING DUTIES ON THE SUBSIDY-BENEFITTING GOOD IS OFTEN REGARDED NOT AS A TRADE NEUTRAL MEASURE, BUT AS A DIRECT POLITICAL AND ECONOMIC ATTACK ON THE SOVEREIGN POLICIES OF THE SUBSIDIZING COUNTRY.

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FROM AMBASSADOR WOLFF TO JOHN DONALDSON

PASS STR ELECTRONICALLY
GENEVA PASS MTN DEL

34. THE FACT IS, THAT TO AVOID A LARGE NUMBER OF VERY SERIOUS
CONFLICTS IN THE FUTURE, INTERNATIONAL AGREEMENT MUST BE
REACHED ON WHAT CONDUCT IS ACCEPTABLE, BOTH IN TERMS OF THE
GRANTING OF SUBSIDIES, AND OTHER COUNTRIES' REACTIONS TO THESE
AIDS.

35. FOR A VARIETY OF REASONS (FOR EXAMPLE TO COMPENSATE FOR
OVERVALUED EXCHANGE RATES OR TO MAKE UP FOR THE START UP COSTS
OF AN "INFANT" INDUSTRY), DEVELOPING COUNTRIES FEEL THAT THEY
MUST SUBSIDIZE EXPORTS TO GENERATE DESPERATELY NEEDED FOREIGN
EXCHANGE EARNINGS. THE ECONOMICS OF SPECIFIC CASES MAY BE
ARGUABLE, BUT WE BELIEVE THAT THE MTN MUST EXAMINE WHETHER AND
TO WHAT EXTENT DEVELOPING COUNTRIES SHOULD HAVE GREATER
FLEXIBILITY IN THE SUBSIDY AREA THAN SHOULD DEVELOPED COUN-
TRIES.

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36. THERE ARE, OF COURSE, CLEAR LIMITS ON WHAT WOULD BE
REALISTICALLY ACCEPTABLE: WE WOULD HAVE TO ACT AGAINST SUB-

SIDIZED IMPORTS WHICH ARE DEMONSTRABLY CAUSING INJURY TO A DOMESTIC INDUSTRY, OR CONTINUED SUBSIDIZATION OF EXPORTS OF A DEVELOPING COUNTRY INDUSTRY WHICH IS FULLY COMPETITIVE IN THE INTERNATIONAL MARKET PLACE.

37. WITHIN LIMITS SUCH AS THESE, THERE ARE PROSPECTS FOR INCLUDING MEANINGFUL SPECIAL AND DIFFERENTIAL TREATMENT IN THE SUBSIDY/COUNTERVAILING DUTY AREA -- PROVIDED, AND THIS IS KEY, THAT WE SUCCEED IN EFFORTS TO DEVELOP SATISFACTORY GENERAL RULES FROM WHICH SPECIAL AND DIFFERENTIAL TREATMENT CAN BE THE EXCEPTIONS.

38. IN ADDITION TO THE NEGOTIATING GROUPS ADDRESSING THESE QUESTIONS, THERE IS IN THE MTN A FRAMEWORK IMPROVEMENT GROUP WHICH IS CHARGED WITH LOOKING INTO BROADER QUESTIONS OF GATT REFORM.

39. THE FIRST CONCERNS THE LEGAL BASIS FOR DIFFERENTIAL AND MORE FAVORABLE TREATMENT BENEFITING DEVELOPING COUNTRIES, DISCRIMINATORY TREATMENT WHICH IS CURRENTLY PROHIBITED BY THE GATT, EXCEPT (AS IN THE CASE WITH GENERALIZED TARIFF PREFERENCES) WHEN EXPRESSLY SANCTIONED BY WAIVER. THERE HAS BEEN INTEREST IN RECOGNIZING DE JURE WHAT HAS EMERGED DE FACTO - THAT DIFFERENTIAL AND MORE FAVORABLE TREATMENT HAS BECOME AN ACCEPTED PART OF THE TRADING SYSTEM.

40. I PERSONALLY BELIEVE THAT, ON BALANCE, SOMETHING IN THIS CONNECTION SHOULD BE DONE, BUT THE CASE IS NOT FREE FROM QUESTION. THE MFN PRINCIPLE IS THE FOUNDATION OF THE GATT SYSTEM. A STANDING BASIS FOR DIFFERENTIAL TREATMENT BENEFITING DEVELOPING COUNTRIES COULD OPERATE TO FURTHER UNDERMINE THE UNCLASSIFIED

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MOST-FAVORED-NATION RULE AND FURTHER DESTABILIZE THE TRADING SYSTEM.

41. HOWEVER, OUTWEIGHING THIS CONCERN IS THE LIKELIHOOD THAT THE GATT WILL SIMPLY BE DISMISSED AS IRRELEVANT IF WHAT HAS BEEN ACCEPTED IN PRACTICE FOR SOME TIME NOW IS NOT RECOGNIZED AS LEGITIMATE.

42. IN THE U.S. VIEW, THERE ARE SHARP LIMITS ON THE SORT OF DIFFERENTIAL AND MORE FAVORABLE TREATMENT THAT WE SHOULD BE PREPARED TO RECOGNIZE. (FOR EXAMPLE, IT MUST BE SUBJECT TO ADEQUATE INTERNATIONAL REVIEW TO ENSURE THAT THIRD-COUNTRY INTERESTS ARE TAKEN FULLY INTO ACCOUNT). FURTHERMORE, THERE MUST BE ACCEPTANCE BY THE DEVELOPING COUNTRIES OF THE PRINCIPLE OF "GRADUATION", THAT IS, AS DEVELOPING COUNTRIES DEVELOP, THEY MUST INCREASINGLY UNDERTAKE THE FULL OBLIGATIONS OF THE TRADING SYSTEM.

43. THE LAST POINT IS, IN MY VIEW, CENTRAL TO A SUCESSFUL
INTEGRATION OF DEVELOPING COUNTRIES INTO THE TRADING SYSTEM.
I CANNOT SEE THE BASIS FOR DEVELOPING COUNTRY RESISTANCE.
THE AVOWED PURPOSE OF DIFFERENTIAL AND MORE FAVORABLE TREATMENT
BENEFITTING DEVELOPING COUNTRIES IS TO ENCOURAGE THEIR DEVE-
LOPMENT. AS DEVELOPMENT OBJECTIVES ARE MET, THE RATIONALE FOR
SPECIAL TREATMENT DISAPPEARS.

44. GRADUATION LEADS TO THE SECOND "DEVELOPING COUNTRY
ISSUE" UNDER NEGOTIATION IN THE FRAMEWORK GROUP - RECIPROCITY.

45. WHILE WE CANNOT REASONABLY EXPECT FULL RECIPROCITY FROM
DEVELOPING COUNTRIES, UNILATERAL GRANTS OF CONCESSIONS BY THE
INDUSTRIALIZED COUNTRIES ARE NOT DESIRABLE EITHER. OUR BASIC
POSITION IS THAT OUR OFFERS WILL BE MAINTAINED OR IMPROVED
PROVIDED THAT THERE ARE CONTRIBUTIONS IN RETURN FROM DEVELOP-
ING COUNTRIES. THIS IS, IN EFFECT, "RELATIVE RECIPROCITY".
THERE ARE SEVERAL REASONS FOR THIS POSITION. FIRST, HIGH TRADE
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BARRIERS GENERALLY INHIBIT DEVELOPMENT. THUS, SOME CONTRIBU-
TIONS ARE DIRECTLY USEFUL TO THE DEVELOPING COUNTRY IN MAKING
THE POLITICALLY DIFFICULT DECISION TO DISCARD ECONOMICALLY
UNJUSTIFIED PROTECTION.

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ACTION EB-08

INFO OCT-01 ISO-00 IO-14 OIC-02 AF-10 ARA-14 EA-12
EUR-12 NEA-10 STRE-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 SOE-02
OMB-01 DOE-11 /173 W

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TO SECSTATE WASHDC PRIORITY 9127

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FROM AMBASSADOR WOLFF TO JOHN DONALDSON
PASS STR ELECTRONICALLY
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46. SECONDLY, FIRM AND LASTING TRADE RELATIONS ARE BASED ON MUTUALITY OF INTEREST. DEVELOPED COUNTRIES' UNILATERAL CONCESSIONS WILL, I AM AFRAID, PROVE SHORT-LIVED. THE POLITICAL SUPPORT IN THE DEVELOPED COUNTRIES FOR UNCOMPENSATED TRADE CONCESSIONS TO THE DEVELOPING WORLD IS NOT STRONG.

47. I AM OPTIMISTIC THAT THE MTN WILL PRODUCE A COMPREHENSIVE SET OF AGREEMENTS WHICH, IN THE PROCESS OF REDUCING TRADE BARRIERS AND STRENGTHENING THE GATT FRAMEWORK, WILL ENCOURAGE FULLER DEVELOPING COUNTRY INTEGRATION INTO THE TRADING SYSTEM. BUT THERE IS QUITE A BIT OF WORK TO BE DONE AND ACTIVE DEVELOPING COUNTRY PARTICIPATION IN ALL PHASES OF THE WORK WILL BE KEY TO GETTING THE JOB DONE.

48. BUT THE TIME REMAINING IS SHORT. THE MTN IS NOW MOVING QUICKLY. UNFORTUNATELY, WITH ONE OR TWO NOTABLE EXCEPTIONS, IT IS RHETORIC RATHER THAN COMMERCIAL INTERESTS THAT APPEARS UNCLASSIFIED

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TO BE OF PRINCIPAL CONCERN TO A NUMBER OF DEVELOPING COUNTRY PARTICIPANTS. WHAT IS NEEDED IS A TRADE NEGOTIATION. END TEXT.

49. ATTACHED AS DISCUSSED IS FOR TIMES AND MONITOR AND FOR OTHER DISTRIBUTION AS YOU SEE FIT. PLEASE DISTRIBUTE COPIES TO GREENWALD AND BARRACLOUGH.
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Message Attributes

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Capture Date: 01 jan 1994
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Draft Date: 31 jan 1978
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Secure: OPEN
Status: NATIVE
Subject: TEXT OF ADDRESS TO INTERNATIONAL ASSOCIATION OF SEED CRUSHERS
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To: STATE USMTN
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